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EUROPE-US: Substantial differences among the Europeans persist over the scope, timing, and format of any new statement on trans-Atlantic relations that would cap a possible visit by President Nixon to Europe this fall.

At a NATO meeting on 27 August, Canadian and Turkish representatives advocated broad treatment of alliance concerns, an approach supported by Norway and Greece. Although most EC NATO members were generally sympathetic to a broad statement, some clearly have reservations. Italy and Belgium, for example, apparently want to await the results of the EC foreign ministers' meeting on 10-11 September before pursuing a NATO declaration further. The French continue to maintain that any declaration in the alliance framework should deal only with defense and detente issues. The French representative opposed inclusion of trade, monetary, environmental, or energy topics in a NATO document.

The EC political directors are exchanging ideas for a possible text in "a virtual conveyor belt" of bilateral meetings, according to a West German Foreign Ministry source. Another West German official recently told US Embassy officers that, although Bonn supports US goals, it is concerned that the US does not realize how complicated it is for the Europeans to achieve a unified position. He added that prospects for obtaining a fully agreed US-European declaration by November are dim. The Germans are also quite reserved on a NATO summit session during the President's visit because it could result in outspoken Scandinavian and Dutch criticism of the Portuguese and Greek regimes.

At the NATO meeting on Monday, the French representative insisted that the allies should not move too fast because this might be harmful to the joint effort. He thought it might be possible to produce results in the defense field in the short term, but that France would probably not make a useful contribution on economic and monetary items until early

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next year. French unwillingness to rush the drafting will be served by the fact that Foreign Minister Jobert, who will accompany President Pompidou to China from 11 to 17 September, will apparently not attend the EC meeting on 10-11 September.

Most Europeans, meanwhile, favor separate documents emerging from the President's meetings with EC and NATO. The Canadians, however, would prefer a single, short, comprehensive document. Their second-best solution would be a paper to "cap" separate EC and NATO declarations. The Turks are also insisting on a single declaration. The format for the meetings themselves is still up in the air, with the French maintaining their reservations about including the foreign ministers in a session between the President and the community.

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SOUTH ASIA: The Indo-Pakistani agreement signed yesterday in New Delhi settles key humanitarian problems resulting from the 1971 war and should clear the way for a general normalization of relations in South Asia.

The two rounds of bilateral negotiations, which opened in Pakistan last month and resumed in New Delhi on 18 August, finally yielded an agreement--with Bangladesh's concurrence--for release of all but 195 of the 90,000 Pakistani prisoners of war held in India since December 1971. It also authorizes an exchange of 150,000-200,000 Bengalees detained in Pakistan (including 203 officials Pakistan accused of treason and espionage) and an unspecified number of non-Bengalee Muslim Biharis now in Bangladesh.

The 195 Pakistani prisoners that Bangladesh wanted to try for war crimes will remain in India, pending negotiations on their status between Pakistan and Bangladesh. It is questionable that any of them will ever face trial in Bangladesh, but their future will probably have to be resolved before Pakistan will recognize Bangladesh. The Pakistanis probably will try to persuade Bangladesh to drop all plans to hold war crimes trials by offering to accept in return additional numbers of Biharis who want to go to Pakistan. When these issues are finally out of the way and recognition follows, negotiations on the division of assets and liabilities between Pakistan and Bangladesh could begin.

The agreement will facilitate improvement of Indo-Pakistani relations, including eventual restoration of diplomatic and economic ties. Reconciliation on the subcontinent also ensures improved relations for India and Bangladesh with China. Chinese officials have expressed Peking's willingness to support UN membership for Bangladesh and to normalize relations with India once the problem of the Pakistani war prisoners is resolved. [redacted]

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JAPAN: The central bank's boost of the discount rate by a full point to 7 percent and its announced increase in reserve requirements for commercial banks this week are additional steps aimed at dampening inflation.

The latest hike in the discount rate is the most spectacular in a long series of anti-inflation measures. The discount rate has been raised four times since the beginning of the year, when it stood at 4.25 percent. Reserve requirements also have been raised four times since 1 January. In addition, the central bank has been pressing commercial banks to limit lending. For its part, the government has been delaying expenditures on certain public works and speeding up bond sales. The government also is urging private firms to restrain investment spending.

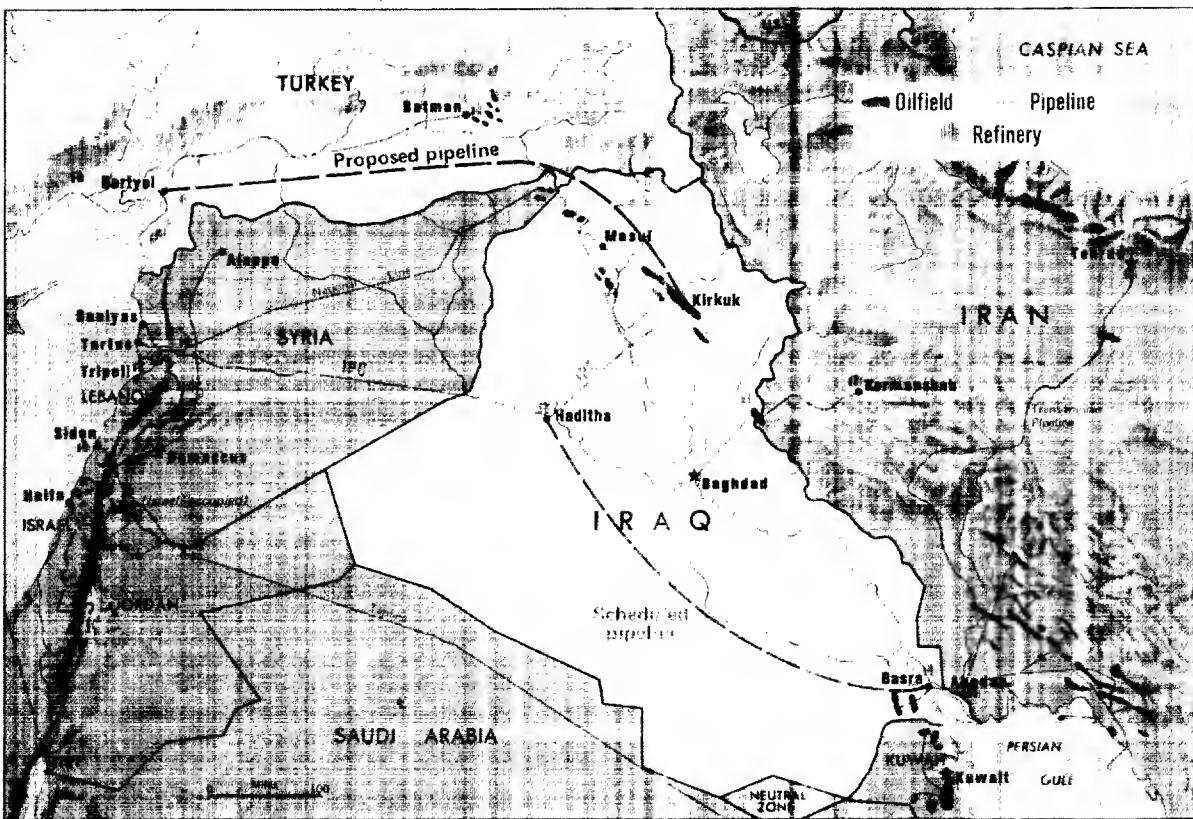
These measures have failed to check an almost unprecedented rate of inflation. Wholesale prices jumped 2 percent in July alone to a level 15.7 percent above July 1972. Part of the problem lies in the inadequacy of measures taken to date. Commercial banks' reserve requirements, for example, still are very low compared to US rates. Despite central bank restrictions, the money supply increased more than 12 percent between January and May. Moreover, business firms entered the year with considerable cash at their disposal, and investment spending consequently has not been responsive to monetary restrictions. The sharp upsurge in world prices of the foodstuffs and raw materials that Japan must import has also contributed to inflation. Despite all these problems, there are a few indications that domestic demand has begun to slacken, and the latest moves should have a greater impact in coming months.

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INDIA: Food supplies will be sufficient until the main rice harvest in November, but belt-tightening will be necessary, according to US Embassy officials. New Delhi stopped purchasing foodgrains abroad in early August because of high prices. Deliveries of grain purchased earlier, together with stocks, however, will allow the government to distribute about 800,000 tons of foodgrains monthly between August and October, some 400,000 tons less than recent monthly levels. Reduction in foodgrain distribution is likely to aggravate labor unrest and cause additional food demonstrations. Priority for foodgrain distribution has been given to urban areas, and rural areas will largely have to shift for themselves until the fall harvest. Good monsoon rains, however, have contributed to increased rural supplies of fruits and vegetables.

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Iraq-Turkey Proposed Pipeline



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IRAQ-TURKEY: Baghdad and Ankara signed an agreement on Monday for the construction of a 40-inch, 500,000-barrels-per-day oil pipeline from the Kirkuk fields in Iraq to Doryol on Turkey's Mediterranean coast. According to the agreement, construction of the 625-mile line, estimated to cost about \$400 million, would start next year and be completed by 1977. The line is being built primarily to facilitate Iraqi exports to free world markets. Many details, including transit fees and financing, have not yet been arranged. A number of Western firms, including seven large US contractors, will be invited to participate in the design and construction.

The pipeline, along with another one scheduled to be built from Haditha on the Syrian border south to Basra on the Persian Gulf, will lessen Iraqi dependence on transit through Syria, the present outlet for Kirkuk oil. Both pipeline projects are part of a major program to expand oil production and exports.

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Chile: The three armed services and the police each kept one ministry in yesterday's minor cabinet reshuffle. There is no indication yet that President Allende made concessions to retain this military support. His coalition parties still dominate the cabinet (4 to 1 over the military) and control the bureaucracy. Allende's cancellation of further negotiations with striking truckers indicates that he will not ease the hard line against government opponents.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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